

## **Exclusive: China's ZTE planned U.S. computer sale to Iran**

Steve Stecklow, Reuters

(Reuters) - China's ZTE Corp, which recently sold Iran's largest telecommunications firm a powerful surveillance system, later agreed to ship to [Iran](#) [1] millions of dollars worth of embargoed U.S. computer equipment, documents show.

The American components were part of an 8 million euro (\$10.5 million) equipment-supply contract, dated June 30, 2011, between ZTE, a Chinese trading firm and a unit of the consortium that controls the Iranian telecom, Telecommunication Co. of Iran, according to documents reviewed by Reuters. ZTE is China's second-largest telecommunications equipment maker.

The documents shed further light on how Iran obtains sophisticated American tech products despite U.S. sanctions on Iran. [China](#) [2] is a major conduit. Reuters in March revealed an earlier deal between ZTE and TCI, which centered on non-American surveillance equipment but also included some U.S. tech goods. The latest deal, though smaller in scale, was much more reliant on U.S. products.

Beijing and Moscow have vetoed Western attempts to strengthen sanctions against Iran over its nuclear-development program. ZTE, based in the city of Shenzhen, is publicly traded but its largest shareholder is a Chinese state-owned enterprise.

According to the contract's parts list, the equipment to be delivered from China included IBM servers; switches made by Cisco Systems Inc and Brocade Communications Systems Inc; database software from Oracle Corp and a unit of EMC Corp; Symantec back-up and ant-virus software; and a Juniper Networks firewall. The parts were intended for business-support services, including a ZTE billing system.

A spokesman for ZTE said last week in an email that "as far as we know" the company had not yet shipped any of the products. Asked if ZTE intended to do so, he emailed a new statement Monday that said: "We have no intention to implement this contract or ship the products."

He also said ZTE decided "to abandon" the agreement after "we realized that the contract involved some U.S. embargoed products."

The contract had made clear the American provenance of the goods: Its accompanying parts list, signed by ZTE, lists more than 20 different computer products from U.S. companies. Washington has banned the sale of such goods to Iran for years.

U.S. companies that responded to requests for comment said they were not aware

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of the Iranian contract; several said they were investigating the matter.

A spokesman for IBM said: "Our agreements with ZTE specifically prohibit ZTE from the transfer of IBM products to Iran. If any of IBM's business partners are breaching our export compliance agreements, then IBM will take appropriate actions."

A Brocade spokesman said the company doesn't sell any products to Iran "and we certainly have not shipped these products to" ZTE. A spokesman for Greenplum, the EMC unit, said: "We have no knowledge of the contract described, but are actively researching this matter." A Cisco spokesman said: "We continue to investigate this matter, as any violation of U.S. export controls is a very serious matter."

According to the U.S. Treasury Dept., a U.S. company would violate sanctions if it shipped products requiring an export license to a third party knowing the goods would end up in Iran.

The United States, Europe and the United Nations have been imposing increasingly tough economic sanctions on Iran to pressure it to refrain from developing nuclear weapons, which Iran denies it is doing. The five permanent members of the U.N. Security Council - the U.S., China, Russia, Britain and [France](#) [3] - plus Germany are scheduled to hold talks with Iran Saturday in Istanbul over its nuclear program, which it maintains is peaceful.

Reuters reported on March 22 that ZTE had sold Iran's TCI a surveillance system capable of monitoring landline, mobile and internet communications. The system was part of a 98.6 million euro (\$128.9 million) contract for networking equipment signed in December 2010.

The article reported that despite a longtime U.S. sales ban on tech products to Iran, ZTE's "Packing List" for the contract, dated July 24, 2011, also included numerous American hardware and software products, although they were not part of the surveillance system.

The U.S. product makers - which included Microsoft Corp, Hewlett-Packard Co and Dell Inc, among others - all said they were not aware of the Iranian contract, and several said they were investigating the matter.

The day after the article was published, a ZTE spokesman said the company would "curtail" its business in Iran. The company later issued a statement saying, "ZTE no longer seeks new customers in Iran and limits business activities with existing customers."

Three other telecommunications equipment makers - Ericsson, Nokia Siemens Networks and China-based Huawei Technologies - previously have said they would reduce their business in Iran. Huawei and ZTE have emerged as the largest equipment suppliers to Iran, according to people involved with the country's telecom industry.

The parts list for the June 2011 contract was much more dominated by U.S.

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products than the earlier equipment contract. The earlier pact was between TCI, ZTE and a Chinese trading company called Beijing 8-Star International Co. The latest contract was between ZTE, Beijing 8-Star and an Iranian company called Aryacell.

Aryacell is a unit of Iran Mobin Electronic Development Co., part of a consortium that controls TCI along with the Iranian government. According to the contract, Beijing 8-Star was required to provide "third-party equipments," while ZTE was responsible for supplying equipment and collecting payment. The contract was to last until December 31, 2015.

Officials at Aryacell and TCI did not respond to requests for comment. A representative of Beijing 8-Star, reached in China, declined to answer questions, saying: "Concerning my business matters, it's not necessary for me to tell you anything."

The contract's parts list included products made by manufacturers from several countries. But most were from the U.S., with IBM items accounting for the bulk of them. The IBM parts included 30 servers and other computer equipment with a total cost of more than 6.8 million euros (\$8.9 million), minus about a 30 percent discount.

Several of the IBM server models, though new, were discontinued shortly before the contract was signed. It called for a 12-month warranty on all equipment.

It is not clear how ZTE will get out of the contract. According to the terms, the contract only can be terminated if Aryacell breaches it, becomes bankrupt or can't pay its debts.

(Reported by Steve Stecklow in Boston. Additional reporting by [Sui-Lee Wee](#) [4] in Beijing. Edited by Michael Williams.)

(Reporting By Steve Stecklow)

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